

The Role of International Trade on Economic Growth in Somalia

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Abstract: The study investigated the role of international trade on economic growth in Somalia, the purpose of the study is to find out the role of imports and exports impact to economic growth in Somalia and to determine the correlation between the role of international trade and economic growth in Somalia.

Major export of Somalia is livestock which is to go with by its products i.e. hides and skins though the country deliberately depends on imports of food items and non-food items.

Somalia's main export is livestock and their products such as hides and skins although the country is heavily rely on imports of nonfood items and as well as food items.

Continuously, Somali's imports started from outside countries such as South East Asia countries and Gulf countries and Country's exports for 2021 were 1.53 billion USD, a 30.05 percent improved from 2020, Contribution of livestock to the national economy is estimated at 60 to 65%.

Somalia's main exports are including livestock, bananas, skins, fish, charcoal, and scrap metal, the major export partners are such as the Yemen, Saudi Arabia, Oman and UAE.

Studies in 2020 indicated that Somalia was the number 173 economy in the world in terms of total exports and number 140 in total imports.

Keywords: Exports, Imports, International trade, Economic growth.

1. INTRODUCTION

There is no nation in the world nowadays produces all the commodities it requires, every nation, as a result, tries to produce those goods and services which go through comparative advantage.

It exchanges part of those goods and services with the goods and services produced by other countries comparatively more efficiently.

According to the Adedeji, 2015 the difference between the capacity of production, technology, taste, etc. and among the countries of the world, has greatly expanded the base of international trade.

International trade refers to the exchange of commodities and services between the countries of the world, which means that at least two countries and more are involved in the activities, the total number of matters related to trade between the businessmen across of those countries and boundaries.

Some nations are better provided with these resources than other countries, in fact, many nations that are adequately provided with good resources may not be able to manage and utilize their

resources, therefore, denying countries the opportunity to achieve growth, necessary progress. and a better standard of living for their citizens (United Nations, 2014).

Some countries are better equipped with these resources than others, in fact, many countries that are adequately provided with their resources may not be having capacity to manage and utilize the resources they had, thus denying countries the opportunity to achieve growth, necessary progress. and a better standard of living for their citizens (United Nations, 2014).

The significance of international trade stems from the reality that there is no country can produce all commodities and services which people require for their use mostly owing to resource differences and challenges.

As a result, this trade relationship recommends that economies require to export commodities and services in order to generate revenue to finance.

After thirty-two years, the Somalia's GDP has been estimated to 7.628 billion USD. (World Bank & Ministry of National Planning and Development, 2021).

However, an approximate population of 18M, the Somalia's Per Capital income of Gross Domestic Product roughly calculated to 446US 2021 and the 2021 average based on 175 countries was 16224.73 US dollars, largest value was in Luxembourg, 135682.8US and the lowest value was in Burundi 236.8 US.

Trade engages a very vital role as export raise and import duties playing the main important part of over 50% of the country's revenue in 2012.

World Bank & Ministry of National Planning and Development 2014, mentioned that Somalia's economy is outlined as a very friendly economy according to the proportion of imports added to exports to Gross Domestic Product which is 91.5%, the 7th highest in Sub-Saharan Africa and 45th highest in the world.

Somalia's economy is outlined as a very friendly in terms of the proportion of imports added to exports to Gross Domestic Product of 91.5%, it is the top of number seven in sub-Saharan Africa countries and the top of number forty-five in the world.

This proportion of this sector gives a estimation of economic interconnection and cohesion in the number of countries (Salvatore 2013). The Somalia's duty levels are similar to those countries in sub-Saharan Africa, said to be essential and constructive with import duties of 4.15 percent and export duties of 3.34 percent belongs to each other.

The Somalia's northern Berbera Port is the economic hub of the northern region of the Somalia, the (Somaliland) and provides all import and export activities (Berbera Port Authority 2016).

(Somaliland is an unrecognized sovereign state in the northern Somalia and recognized internationally as part of Somalia in northern regions (Hargeisa, Borama, Burco and Berbera cities)

The major reasons international trade has a getting place are differences in the presence of economies of scale, presence government policies, the information technology, demand and resources.

Purpose of the study

The main purpose is to find out the role of export and import on economic growth in Somalia and to determine the relationship between international trade and economic growth in Somalia.

2. Literature review

This will go through and provide the existing literature about the role of international trade on economic growth in Somalia, it will highlight the concepts, Ideas, and Opinions from Authors, Experts, and secondary data sources and also describes the related studies.

2.1. International Trade

International trade is the exchange of goods and services between different countries at least two or more countries. The exchange can be both import and exports, and imports are goods or services brought to the local market, while export refers to goods and services sold outside the domestic market.

According to the Adedeji, 2015, stated that traders attract to economic activities for the objectives of profit maximization bring about by differentials among the international economic environment of countries.

The theory of comparative advantage makes us get more comprehensive that nations trade with each other in commodities

and services because of the idea of differentials in the financial capital, natural resources, human capital, and technical capabilities perform of countries.

2.2. Economic Growth

The measuring of economic growth can be used in several factors including, Growth Domestic Product and Growth National Product which are the common factors used for measuring economic growth.

Gross domestic product regards the aggregate value of goods and services manufactured within a nation's borders.

Gross National Product measures the entire value of goods or services made by a nation's national in their place, and these measures bring a general overview of a nation's economic growth. (Tamplin, 2023).

2.3. Exports

Remarkable and core features of the developing nations, especially Sub-Saharan African countries mostly rely on the exports of not manufactured items including Mineral and agricultural materials and items exports (Todaro & Smith 2012). Nonetheless they have been lately moving to exporters of manufactured goods (Krugman & Obstfeld 2009).

As the domestic output is still not strong and little importance, Somalia's exports are primarily unmanufactured goods. Somalia mainly exports livestock with primary species of camels, cattle, sheep, and goats – and its byproducts including hides and skins together with frankincense.

Since the domestic output is not yet strong enough and the importance of the government paying to this is low, Somalia exports commodities that are not manufactured or processed. Livestock is Somalia's basic export, consisting of primary livestock species such as camels, cattle, sheep, and goats - and their products, such as hides and skins and including other incense.

Somalia's economy is largely dependent on animal production, which employs more than 70% of the country's population, since most Somali residents are pastoralists and those who work in livestock-related matters from breeders, transporters, traders, brokers, exporters, government agencies, and anyone who has a role in this matter.

Livestock production system in Somalia also play significant part in sixty percent of Somalia's GDP and more than eighty-five percent of the country's income from the export of Somalia livestock.

The Somali livestock trading market has faced many challenges that have caused it to be vulnerable to external factors, as can be seen from the several times that Somalia's livestock export has been stopped by Saudi Arabia, which is where most of the Somalia livestock is exported, by Somalia's traders and their partners in Saudi Arabia between 1997 to 2000.

Most of Somalia's livestock is exported during Hajj and Eid al-Arafa, when hundreds of thousands of Muslims go to Saudi Arabia to perform the Hajj.

Also, it experiences significant disadvantages due to high duties, lack of proper financial structure, dependence on foreign markets, and fluctuations in market prices.

Livestock is the main economic source of national and family wealth in Somalia, and the pastoral production system oriented towards the export of livestock is a very significant source of livelihood and resilience in many places. In Somalia, they do not have a small economic life apart from the production of livestock and their marketing.

Livestock provides a source of revenue, and family utilization of meat and other animal products is an significant source of sufficiency food that meets their needs.

Pastoralist communities mainly drink milk and eat meat for nutrition, dietary and also economic sources, which supplement cereal and non-cereal foods, which are mainly derived from income from the sale of livestock and milk.

Livestock also plays an important role in Somali culture, with animals exchanged to consolidate social ties and reciprocal relationships.

Livestock trade plays an important part in the country's economy, it faces many challenges and losses caused by the lack of a strong financial system, dependence on one single foreign market, and having several taxes.

According to UNFPA 2014 information, it showed that about twenty-six percent of the population is categorized as nomadic, according to the latest population estimates. Many others in both rural and urban areas derive large parts of their livelihoods from livestock, making the number of people directly benefiting from this sector sixty-five percent.

From 2011–2014, the livestock subsector accounted for about seven five percent of total exports, so the figure has fluctuated, interrupted by droughts and international export bans, in the last three decades.

Many traditional constraints associated with livestock production have intensified in recent decades.

In the first three months of 2020, the northern port of Somalia (Berbera port) exported 595,861 head of livestock, which represents a notable and remarkable enhance of one hundred and eight percent, and fifty eight percent compared to the number exported in the second quarter and the first quarter respectively.

However, this was showed lower than the number exported in the same period in 2019 and 2018, third quarter export in 2020 was 57 percent lower than the number registered at the same time in 2019 and 45 percent lower than in 2018, so, in between January and September 2020, Somalia exported a total of 1,064,170 heads of livestock compared to the 1,745,771 registered in the period of 2019, showing a significant 39 percentage decrease.

This decline mostly originated from Sheep & Goat export which was specifically low in July and August with 58 -82 percent in comparison to the same period in 2019, respectively.

Studies showed the composition of livestock export in the first 9 months of 2020 and 2019, with Sheep and Goats accounting for 87-92 percent of total exports.

There is a need to advance the nontheoretically skill levels of the nation's labor force by delightful them in applied and technical training plans in both public and private institutions of higher educations , this can both directly and indirectly increase the

magnitude of exports, which then enhance the economic improvement of the country.

2.4. Imports

According to the (Ministry of National Planning and Development 2015, stated that the due to the low of domestic production, consumer and manufactured commodities are maily imported from foreign countries, they are mainly imported from the ports of Mogadishu, Berbera, Bosaso and Kismayo, and they are included as food items such as sugar, Rice, Flour, Wheat, Oil, Dates. Pasta, Cookies, etc. And non-food items such as petrol, diesel, clothing, cars or trucks, logistics, cigarettes, soap, construction materials, etc.

Nevertheless, other import channel is Beled-xaawo customs at Kenya Somalia border, Wajaale customs at the Ethiopia-Somalia border, and Muqdisho Airport, where food and nonfood items.

Food and non-food are imported daily from Somalia's ports such as Mogadishu, Kismayo, Bosaso and Berbera ports, including sugar, rice, and flour which share to the largest contribution of food in hundreds of thousands of tons per day while dates and Cookies are the smallest portion. On the other hand, fuel, clothing, construction materials, electronics, communication devices and vehicles are regularly imported with thousands of tons, and M3 daily at Somali ports.

2.5. Trade with the rest of the world

According to Markusen et al. 1995, stated that an International trade is explained as the tradeoff and transactions of products and services between countries that crosses the boundaries of two countries and beyond. The improvement of international trade and commitment of resource in late these decades has open on to interrelation within countries, which It also raises global economic constraints in debates about national and private policies.

The transactions of commodities, services, capital and labor across national boundaries reveals the economic affiliation (Salvatore 2013).

According to Markusen 1995, stated that the advantages of trade are inclusive and comprehensive relationship and also in the 19th century according to David Ricardo the British economist, so long as there are some comparative gains, there will be advantages acquired from business in any subject of let it be one nation or one group has the full benefit of all goods and transactions

Even though every international trade has many aspects including negative and positive aspects, but generally economists believe that the advantages of trade outweigh the costs of international trade, in some cases, even though they allow consumers to enjoy trades in low charges or fees. Many low charges or fees and large variety of choices, it also brings this issue more competition among companies as well as employees

According to Gerber 2014, stated that although the openness of the world economy there is a very significant credence that is to close the high policy in compatible with economic thoughts, historical beliefs, and statistical data, there is substantial support for open economies typically grow faster and more affluences than restricted ones

Trade enables companies and countries to concentrate on in their manufacturing of goods that have lead benefits and spend revenue to buy commodities and services that produce more costs. Trade

also supports and go along with to global competitiveness that compel domestic manufactures to improve the quality of their production of goods and services; trade also reduces monopolies, conversely, internationalization makes the economy more vulnerable to external shocks if they take place.

Somalia is massively relying on food and nonfood items imports, the country is also unable to survive without getting revenue from exports such as livestock, hides, butter, incense, and various types of frankincense. Therefore, as the ratio of exports and imports to gross domestic product in Somalia is ninety-one and a half percent, Somalia is to be in, and is a very open country and also in terms of geography where Somalia is located in global markets, it can be advised as a small strategic economy hub in horn of Africa.

According to Salvatore 2013, stated that since countries are more believed to trade connection more with countries that have open economic structure, the strategic and openness of Somalia's economy is likely to attract more business and traders which leads to improve and prosperity if it takes place.

Geographically, the strategic position of Berbera Port on the southern coast of the Gulf of Aden is beneficial for Somalia's global trade, as Berbera Port is located close to Ethiopia, a landlocked country of one hundred million people above, yet the Ethiopian government imports from worldwide through Berbera Port, which is one of the ports that Ethiopia utilizes, and also exports livestock from the Somali region of Ethiopia.

It is a very important and future regional entrance to the neighboring countries in Somalia, especially Ethiopia and foreign trade, as it has now been invested by the United Arab Emirates Government, which manages the port of Berbera these years

(Azam 2010 and the Ministry of National Planning and Development 2011).

2.6. Role of International Trade and Economic Growth

Trade is major in elevating world poverty, nations that are ready and open to international trade tend to grow faster, innovate, improve output, and provide higher income and more opportunities to their citizens

Open trade also gets benefits lower-income households by contributing to consumers' fairer low-cost commodities and services.

Through global economic integration such as trade and in international value chains that promote and support economic improvement, as well as reduce globally and domestic poverty.

Not only does international trade bring about enhanced efficiency and productivity but also international trade allows countries to participate in the international economy and to encourage foreign direct investment and trade opportunities.

In theory, the economy can improve more efficiently and easily become more easily competitive economy participant.

3. Research Methods

This study used secondary data, the study deploys both qualitative and quantitative methods.

Important issues in developing countries, especially those in sub-Saharan Africa, rely mostly on exports of non-manufactured goods such as mineral and agricultural exports (Todaro & Smith 2012), although they have recently shifted to exports of produced goods. industrialized (Todaro & Smith 2012). Krugman & Obstfeld 2009).

Figure one: Export in Berbera Port during 2010 to 2014 per heads for Livestock

Month	2010`	2011	2012	2013	2014	Total
01	211839	95002	141303	235022	228319	911485
02	70666	109647	271882	149750	146733	748678
03	46566	144127	131150	118143	178716	618702
04	83377	119658	116103	83839	156338	559315
05	60620	72313	87602	143863	81428	445826
06	103424	181199	209768	212906	284483	991780
07	190601	345969	232800	272172	252747	1294289
08	179234	216452	182231	220993	287543	1086453
09	275124	202994	294012	953484	1322588	3048202
10	552579	1254636	1594136	616984	104647	4122982
11	966692	387903	64386	37713	200310	1657004
12	69760	232999	187229	121690	162715	774393
Total	2810,482	3362899	3512602	3166559	3406,567	16259109

Figure two: Exports in Berbera Port during 2010 to 2014 per pieces for Hide and Skin

Month	2010	2011	2012	2013	2014
01	505347	862255	314490	227049	108456
02	257850	2368945	223891	340500	106513
03	432847	3127508	249612	66588	256083
04	306555	791100	391854	131415	417436
05	492864	1918757	329033	82350	254778
06	151222	1143535	115776	211737	328900
07	196950	1796932	181954	56800	426500
08	575235	225400	352180	144715	178700
09	124664	604100	1070058	270257	218736
10	563738	242976	199336	245647	283251
11	1005800	244154	269843	257195	384300
12	2290974	316685	278004	145990	231085
Total	6904046	13642346	3976031	2180243	3194738

According to the Ministry of National Planning and Development 2015, stated that due to the lack of domestic production, manufacturers and consumer are mostly imported from outside countries, so imports basically in Berbera Port are classified into food items and non-food items.

Figure three: Imports in Berbera Port 2010 to 2014 per tones for Food items

Year	Sugar	Rice	Wheat flour	Wheat	Cooking oil	Pasta	Dates	Biscuits
2010	133500	60270	71650	56052	17949	28589	3749	6064
2011	94956	86827	71511	20500	17656	34998	6570	6887
2012	118440	83846	75925	64767	19888	34401	4855	10185
2013	115929	79822	82519	11656	13125	28717	6851	9370
2014	181227	94296	111579	4985	28101	45054	7552	6641

Figure four: Imports in Berbera Port 2010 to 2014 per tones and M3 for Nonfood items

Year	Petrol	Diesel	Clothes	C/trucks	s/parts	Cigarettes	Soap	O/building	Other	Total
2010	6454	52401	20514	13179	3478	6872	9992	203162	128988	446391
2011	7168	56392	10183	10774	2294	7124	9581	45313	147199	296995
2012	10741	56022	9484	11365	3315	9011	9148	56015	197715	363858
2013	16162	69408	10684	15077	5232	7528	10925	49751	191828	378071
2014	20237	99077	13303	18291	6887	5482	9783	55487	250304	479742

Figure Five: Foreign Trade

Foreign Trade Indicators in Somalia in % of GDP	2017	2018	2019	2020	2021
Foreign Trade in percentage of GDP	100	107	101	102	206
Imports of Goods and Service	82	87	84	85	86
Exports of Goods and Services	18	19	17	17	20

The top imports of Somalia are 577 million USD in Rolled Tobacco, 262 million USD in Raw Sugar, 248 million USD in Other Vegetables, 206 million USD in Rice, and 150 million USD in Broadcasting Equipment, imported mostly from the United Arab Emirates 1.28 Billion USD, 893 million USD China, 544 million USD in India, 294 million USD in Ethiopia, and 274 million USD in Turkey.

The top exports of Somalia were 111 million US from Gold, Sheep, and Goats 35million US, 25.8million US Insect Resins, 21.1million US from other Animals, and 21.1million US from other Oily Seeds, 146million US exported mostly to United Arab Emirates, 39.2million US in Saudi Arabia, 16.5million US Japan, 11.7million US Bulgaria 11.7 million US and 7.68million US from China.

4. Findings, Discussions and Results

The capacity of Global trade has been improving on top of the years and resulted in more dependent upon one another, Somalia's economy mainly depends on international trade.

In 2021, Somalia exported a total of 482 million USD, making it the number 168 exporter in the world, during the last five reported years, the exports of Somalia have changed by 149million USD from 631million USD in 2016 to 482million USD in 2021.

Moreover, Somalia's economy is narrated as a significant friendly economy as per to the proportion of f imports added to exports of gross domestic product, which is ninety-one and point five percent and the seventh highest among sub-Saharan African countries. forty-fifth highest in the world.

Nevertheless, when looking at the production of the country that outweighs the export, the trade deficit is very large, and is financed by remittances and foreign aid support, livestock is the most important export from Somalia. along with by-products such as hides and skins as the country is heavily dependent on fuel and food imports and manufactured goods.

Muqdisho Port is the country's major Port and Berbera is the second country's major port and Bosaso is the third Port providing that both exporting and importing activities.

When exports exceed imports, net exports are positive, which indicates that the country has a trade ratio, and when exports are less than imports, net exports are negative, which indicates that the nation has a trade deficit.

The government should consider in the country's economic strategy improvement in the imports of capital goods, which can in turn enhance manufacturing capability of the economy and finally significantly influence the export capacity and economic improvement.

Somalia's exports basically end up in UAE, Oman, Saudi Arabia, Yemen, Kuwait and Jordan while the imports from neighboring countries and South East Asia, and further on that.

In addition, the livestock trade in Somalia has suffered significant losses due to high taxes, financial instability, dependence on one single foreign market, and fluctuating market prices.

In terms of exports, the Somali government should have established policies to support exports, such as investment supports, tax reduction, and to support businesses to do

improvement and expand in other areas by creating interest-free policies and provided available business loans.

As an outcome of this, the trade linkage and connections recommend that economies require to export commodities and services in order to generate revenue to finance.

According to the International Trade portal indicated that in 2021, Somalia major exported to the UAE, India, Oman, Bulgaria and Nigeria, the country's major suppliers including Malaysia, the UAE, Brazil, China and Turkey.

International trade between different nations plays an important role and create a very important factors in raising the country's standard of living, creating employment opportunities, and enabling consumers to enjoy a different of goods and service Both exports and imports play an important role in economic growth because together they make up the balance of national trade, which can lead to the overall health of the economy, a healthy economy, both exports and imports show continuous activity and usually stands for durable and strong of the nation's economic system.

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